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Executive Director

**ARIZONA CORPORATION COMMISSION**

October 3, 2006

Mr. J. U'Ren, Chairman of the Board  
Ms. Shirley Agnos, President Emerita  
Ms. Tara L. Jackson, President  
Arizona Town Hall  
111 West Monroe  
Suite 1216  
Phoenix, Arizona 85003

Dear Arizona Town Hall Leaders:

We have reviewed the recently-issued 88<sup>th</sup> Arizona Town Hall Report, *Arizona's Rapid Growth and Development: Natural Resources and Infrastructure*. We appreciate your organization's efforts to examine various ways to manage Arizona's explosive population growth. The Corporation Commission is also grappling with the challenges posed by growth and is taking appropriate action to ensure that the infrastructure needs of Arizona's public utilities are met.

We acknowledge that your organization invited Chairman Jeff Hatch-Miller to the Town Hall meeting held April 9-12, 2006. Unfortunately, neither the Chairman nor any other Commissioner could attend your event because of various individual scheduling conflicts on April 9-11. And on April 12, the Commission held Open Meeting to address two important policy issues: 1) expanding Arizona Public Service Company's program that offers solar photo voltaic systems to its customers and 2) acting on Tucson Electric Power's request to revisit the 1999 Settlement Agreement regarding electric rates for its customers.

We believe the recommendations of your consensus report manifest a misunderstanding and lack of awareness about the Corporation Commission efforts. Accordingly, we would like to detail the steps the Corporation Commission is taking address short- and long-term growth and infrastructure issues affecting Arizona public utilities and their customers.

Nonetheless, we regret that we were unable to attend your four-day event. Had we done so, the Town Hall attendees would have been apprised of the Commission's legal constraints and concrete actions on these matters. As you can see from the following attachments, the Corporation Commission is asserting a statewide leadership role in the utility infrastructure planning and water conservation management for regulated utilities.

The attachments highlight the Corporation Commission's involvement in:

- State and regional planning for electric power infrastructure
- Natural gas pipeline and storage projects
- Power plant and transmission line siting approval
- Water conservation measures for private water companies
- Renewable power and demand-side management programs for electric power and natural gas utilities

We thank you for this opportunity to share this information with you. We agree that Arizona policy makers should always strive to improve and streamline their processes that would benefit the public. The Corporation Commission has a proud record in this regard. However, a sound record is something upon which we all ought to build, not rest.

Please contact us if you need additional information.

Sincerely,



Jeff Hatch-Miller  
Chairman



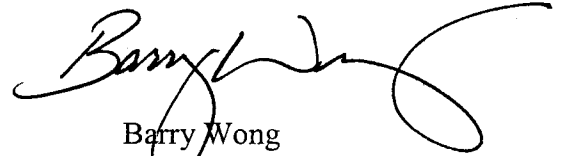
William A. Mundell  
Commissioner



Mike Gleason  
Commissioner



Kristin K. Mayes  
Commissioner



Barry Wong  
Commissioner

Attachments

## **State and Regional Infrastructure Planning**

The Corporation Commission has long been involved in transmission planning with electric utilities from Arizona and neighboring western states. In recent years, this planning process has become more collaborative and regional in nature. The aim of coordinated planning between the utilities and Corporation Commission is to ensure that the transmission system is designed and constructed to address specific state concerns and in accordance with reliability standards established by the North American Electric Reliability Council (NERC) and the Western Electricity Coordinating Council (WECC).

### **Assessment Authority**

Arizona law (ARS § 40-362.02.E) requires every entity contemplating the construction of any transmission line within Arizona during a ten-year period to file a “ten-year” plan with the Corporation Commission each year.

In 1999, this statute was amended to require the Corporation Commission to review the ten-year plans and issue a comprehensive report regarding the adequacy and reliability of Arizona’s existing and planned transmission system to meet the state’s present and future energy needs.

In 2001, the Corporation Commission successfully sought legislation to modify the line siting statutes in two important ways. First, every entity contemplating construction of a new power plant within Arizona is now required to file a plan with the Corporation Commission 90 days before filing an application for a Certificate of Environmental Compatibility (CEC) with the Arizona Power Plant and Transmission Siting Committee. Second, the required plan must include a power flow and stability analysis showing the effect of plant interconnections on the state’s current and future transmission system.

### **Southwest Area Transmission (SWAT)**

The Southwest Area Transmission (SWAT) is regional planning group, consisting of participants from Arizona, New Mexico, southern California, west Texas, southern Nevada, and southern Colorado, to promote regional planning in the Desert Southwest. The Corporation Commission, along with various Arizona electricity providers, participates in the Central Arizona Transmission subcommittee.

### **Southwest Transmission Expansion Planning (STEP)**

STEP was created as an ad-hoc group to coordinate transmission planning and development in Arizona, southern Nevada, southern California and northern Mexico. Participants include representatives from utilities, independent power producers, state agencies and regulators, including the Corporation Commission, and other stakeholders with an interest in the transmission system for the southwest region. STEP focuses on economically-driven expansion projects that support the development of “seamless” western markets while satisfying established reliability criteria.

#### Annual Summer Preparedness Meetings

Every spring, the Corporation Commission has held a public meeting with the state's largest electric utilities to discuss their plans to provide a sufficient and reliable supply of power during the summer months. These meetings focus on the following areas:

- System improvements (transformers, transmission substations, distribution substations, distribution feeders, distribution lines, meters)
- Planned maintenance activities (coal, natural gas and nuclear generators, vegetation management, transmission line inspections)
- External coordination activities (response to electrical emergencies with federal, state, county and local agencies; joint planning)
- Fuel and purchased power adequacy (contracts, inventory, available capacity)
- Load and resource adequacy (existing, long-term contracts, spot purchases, reserve margins)
- Transmission adequacy (import capability, load pocket generation, reserve requirements)
- Contingency planning (backup center testing, regional black start drill, weather forecast, planned/unplanned generation or transmission outages, forest fires)

## **Natural Gas Infrastructure**

Virtually all of Arizona natural gas supplies are currently provided through the El Paso Natural Gas pipeline system. Over the last few years, natural gas prices have been volatile, producing record highs. The floor price of natural gas has risen and leveled off, but will continue to be affected by the global demand and bad weather. Soaring demand for natural gas in the fast-growing Southwest, particularly for power generation, coupled with a lack infrastructure development, had prompted the Corporation Commission to take affirmative action.

In April 2003, the Corporation Commission initiated a formal inquiry to examine ways to encourage the development of additional natural gas infrastructure in Arizona. The purpose was to diversify Arizona's natural gas in terms of infrastructure and supplies, which would provide utilities with a competitive alternative to the El Paso Natural Gas pipeline.

The official policy statement adopted by the Corporation Commission included a key economic incentive for Arizona-regulated utilities: pre-approval of specific costs for acquiring pipeline capacity for a proposed natural gas pipeline or storage project.

Over the last few years, the Corporation Commission has granted pre-approval to Arizona Public Service and Southwest Gas Corporation relating to cost-recovery for participation in various proposed natural gas pipeline projects, including:

- *Transwestern Pipeline Phoenix Project*  
Pre-approval was granted to Arizona Public Service on March 23, 2006 and Southwest Gas Company on June 5, 2006. This project is under review by the Federal Energy Regulatory Commission and, if approved, will be constructed to provide additional pipeline capacity and supply diversity to the Valley of the Sun.
- *Kinder Morgan Silver Canyon Pipeline Project*  
Pre-approval was granted to Arizona Public Service on September 15, 2004 and Southwest Gas Company on June 29, 2004. This project, however, has not been pursued by Kinder Morgan.

## **Power Plant and Transmission Line Siting**

The Arizona Power Plant and Transmission Line Siting Committee provides a single, independent forum to evaluate applications to build power plants (100 megawatts or more) and transmission projects (greater than 115 kilovolts) in the state. Since 2000, the Siting Committee has handled 38 power plant and transmission line cases.

In evaluating the proposals, the Siting Committee considers numerous environmental criteria prescribed by Arizona law and then forwards its recommendation, known as a Certificate of Environmental Compatibility (CEC), within 180 days to the Corporation Commission for approval or denial. By regulatory review standards, this 180-day deadline is blazingly fast.

When acting upon on a Siting Committee's recommendation, the Corporation Commission is obligated to balance various competing factors, including the broad public interest, the need for adequate, economical and reliable power and environmental protection concerns.

### **Power Plants**

Since 1998, the Corporation Commission has approved 13 separate projects, adding 10,462 MW in new electric generation in Arizona.

- *West Phoenix Phase I* (120 MW)
- *West Phoenix Phase II* (510MW)
- *Desert Basin* (560 MW)
- *Griffith Energy Project* (650 MW)
- *Sundance* (450 MW)
- *Arlington Valley Unit 1* (580 MW)
- *Red Hawk Units 1,2* (1,160 MW)
- *Kyrene Generating Station* (250 MW)
- *Panda Gila River Units 1,2,3,4* (2,080 MW)
- *Mesquite Power Plant* (1,265 MW)
- *Harquahala* (1,092 MW)
- *Santan Expansion* (825 MW)
- *Springerville Unit 3* (3,380 MW)

Additionally, the 540 MW South Point project was constructed on Fort Mohave Indian land. Construction of a power plant on tribal land does not require approval of the Arizona Power Plant and Transmission Line Siting Committee or the Corporation Commission; however, this was a key addition to the state's power supply in the fast-growing Mohave County region.

As part of these approvals, the Corporation Commission has required these new power plants to comply with the most stringent air emission standards and water use restrictions

in the nation. In addition, they are required to participate in regional transmission planning and reliability activities, including:

- Satisfying WECC reliability standards
- Becoming a member of Southwest Reserve Sharing Group
- Participating in state and regional transmission study forums, including the STEP and Commission sponsored Reliability Must-Run studies, and ten-year transmission studies.
- Participating in regional workshops and other assessments of the natural gas pipeline in the region.

#### Transmission Lines

Since 2000, the Corporation Commission has approved more than 20 transmission projects totaling roughly 550 miles across Arizona.

- *Greenlee AEPCO to Greenlee TEP 345 kV Transmission Re-Route Project*  
Arizona Electric Power Cooperative  
Decision No. 62322 (February 17, 2000)  
Under a mile long
- *Desert Basin Generating Plant 230 kV Transmission Line Project*  
Reliant Energy Desert Basin  
Decision No. 62426 (April 3, 2000)  
Under a mile long
- *TEP to Copper Verde 245 kV Transmission Line Project*  
Morenci Water and Electric Company  
Decision No. 62459 (April 14, 2000)  
11 miles long
- *Arlington Valley 500 kV Transmission Line Project*  
Duke Energy  
Decision No. 62740 (July 25, 2000)  
2.4 miles long
- *Panda Gila River 500 kV Transmission Line Project*  
Panda Gila River Project  
Decision No. 62730 (June 30, 2000)  
18 miles long
- *Gila River 500 kV Transmission Line Project*  
Arizona Public Service  
Decision No. 62960 (October 16, 2000)  
20 miles long
- *Navajo 500 kV Transmission Line Project*  
Dine Power Authority  
Decision No. 63197 (November 30, 2000)  
138 miles long
- *Redhawk to Hassayampa 500 kV Transmission Line Project*  
Arizona Public Service

- Decision No. 63392 (February 21, 2001)  
1 mile long
- *Gila Bend 500 kV Transmission Line Project*  
Gila Bend Power Partners  
Decision No. 64356 (January 1, 2002)  
9 miles long
  - *TEP Nogales 345 kV Transmission Line Project*  
(The U.S. Forest Service has yet to approve the line)  
Tucson Electric Power  
Decision No. 64356 (January 15, 2002)  
65 miles long
  - *Southwest Valley 500 kV Transmission Line Project*  
Arizona Public Service and Salt River Project  
Decision No. 64473 (February 12, 2002)  
37 miles long
  - *Bowie Power Transmission Line Project*  
Bowie Power Station  
Decision No. 64626 (March 7, 2002)  
14.3 miles long
  - *Hassayampa to Jojoba 500 kV Transmission Line Project*  
Gila Bend Power  
Decision No. 65866 (April 25, 2003)  
20 miles long
  - *North Valley 230 kV Transmission Line Project*  
Arizona Public Service Company  
Decision No. 65997 (June 18, 2003)  
31 miles long
  - *Winchester 230 kV Transmission Interconnection Project*  
Southwest Transmission Cooperative and Tucson Electric Power  
Decision No. 65934 (May 16, 2003)  
24.2 miles long
  - *Bills-Wilmot 138 kV Transmission Line Project*  
Tucson Electric Company  
Decision No. 66521 (November 12, 2003)  
1.5 miles long
  - *West Valley South 230 kV Transmission Line Project*  
Arizona Public Service  
Decision No. 66646 (December 22, 2003)  
18 miles long
  - *Sandario 115 kV Transmission Line Project*  
Southwest Transmission Cooperative  
Decision No. 67432 (December 3, 2004)  
5.2 miles long

- *Palo Verde-Pinal West 500 kV/345kV Transmission Line Project*  
Salt River Project, Arizona Public Service, Tucson Electric Power  
Decision No. 67012 (May 24, 2004)  
52 miles long
- *West Valley North 230 kV Transmission Line Project*  
Arizona Public Service  
Decision No. 67828 (May 5, 2005)  
25 miles long
- *Palo Verde Hub to TS-5 500 kV Transmission Line Project*  
Arizona Public Service  
Decision No. 68063 (August 17, 2005)  
43 miles long
- *Pinal West Southeast Valley/Browning 500 kV Transmission Line Project*  
Salt River Project, Arizona Public Service Company, Tucson Electric Power and others  
Decision No. 68291 (November 14, 2005)  
100 miles long
- *Goldfield to Spurlock 115Kv Transmission Line Project*  
Salt River Project  
Decision No. 68308 (November 14, 2005)  
Under a mile long

#### Other Major Transmission Projects Planned

- 115-mile transmission line from Palo Verde Nuclear Generating Station to Yuma. Construction will begin in 2009 and be completed in 2012.
- 25-mile transmission line from West Valley to Pinnacle Peak. Construction will begin in late 2008 or early 2009 and be completed in mid-2010.
- Nearly 230-mile transmission line from California to the Palo Verde Hub (Palo Verde Devers II Transmission Line Project). The California portion of this proposed line is 128-miles long and the Arizona portion is 102-miles long. The case is pending before the Siting Committee.

## **Water Conservation Measures**

As part of the ongoing efforts to promote water conservation, the Corporation Commission has established pricing signals for water customers. Since 2000, water utilities filing rate case applications have been required to adopt inverted three-tiered rates to encourage water conservation. In cases of extreme drought conditions, the Corporation Commission has placed a moratorium on water meter hook-ups.

For new developments requiring water service, the Corporation Commission has prohibited the use of groundwater, where possible, for the irrigation of golf courses, ornamental lakes, water features, common areas and parks. Instead, the use of treated effluent, if available, has been mandated. Stand alone water companies are required to cooperate with the serving wastewater companies to reduce reliance on groundwater and increase the usage of effluent.

The issue of water availability in various parts of the state has prompted the Corporation Commission to strengthen the approval process for granting new or expanding an existing Certificate of Convenience and Necessity (CC&N) for water utilities. In particular, the Corporation Commission has required water utilities to file the following documents:

- Curtailment plans
- Copy of the developer's Certificate of Assured Water Supply issued by AZ Department of Water Resources (inside an AMA)
- Copy of the developer's Letter of Adequate Water Supply issued by AZ Department of Water Resources (outside an AMA)
- Copy of Physical Availability Determination issued by AZ Department of Water Resources for assured water supply
- File a remedial plan of action to reduce water loss if it exceeds 10%

The Corporation Commission has long recognized the importance of requiring water utilities to implement water conservation practices and strategies. In the near future, the Corporation Commission will require private water companies to employ Best Management Practices that are currently being formulated by the Arizona Department of Water Resources.

## **Renewable Energy**

Arizona was one of the first states in the country to require regulated electric utilities to generate a percentage of their energy from renewable resources. In 1996, the Corporation Commission drafted the Solar Portfolio Standard, which later turned into the Environmental Portfolio Standard (EPS) that Arizona has in place today.

The EPS has been in place since 2001. These rules require that regulated electric utilities generate 1.1% of their power from renewable resources. Up to 60% of this requirement must be met by solar energy. The EPS is funded by customers: residential customers pay \$0.35/month, small business customers, \$13/month and large businesses, \$39/month.

The EPS program helped fund Tucson Electric Power's 4.6 MW Springerville Solar Plant in Springerville. Arizona Public Service also took advantage of EPS funds to build the 4 MW solar system at the Prescott Airport and the recently completed 1 MW solar trough project at the Saguaro Power Plant in Red Rock. Since the EPS' inception, hundreds of solar rooftops, geothermal and landfill gas projects that have been funded and completed.

In 2004, the Corporation Commission decided to review the EPS rules and look at expanding them into the future. The Corporation Commission has not yet vote on these rules, but the preliminary draft calls for an expansion of the rules to require regulated electric utilities to generate 15% of their power from renewable resources by 2025. The proposed rules also eliminate the dedicated solar set-aside, but have a large distributed energy requirement.

The Corporation Commission has also shown a commitment to renewable energy outside of the EPS. As part of the 2005 decision in Arizona Public Service's general rate case, the Corporation Commission required Arizona Public Service to contract for 100 MW of renewable energy. Arizona Public Service ultimately contracted for 144 MW of renewable energy, which included a 90 MW wind project from New Mexico, a 35 MW geothermal project from California (which was recently cancelled by the developer) and two 3 MW landfill gas projects from the City of Phoenix.

The Corporation Commission has expressed a strong commitment to renewable energy that began a decade ago with the solar portfolio standard. The Corporation Commission is the best-suited entity in state government to address renewable energy issues and has done so.

## **Demand Side Management**

Demand Side Management (DSM) programs, like renewable energy, help customers decrease their energy usage from the utility company. The Corporation Commission has undertaken DSM programs for both Arizona Public Service and Southwest Gas customers as part of their recent rate cases.

The Corporation Commission approved \$48 million in DSM programs for Arizona Public Service customers as part of their 2005 rate case. These programs addressed multiple customer segments, from residential to commercial, new construction to existing customer programs.

In the recent Corporation Commission decision in the Southwest Gas rate case, the Corporation Commission authorized the company to expend \$4.385 million in DSM programs for their customers. The Corporation Commission has not yet approved the specifics of these programs.

Similar to renewable energy, the Corporation Commission has taken the lead in implementing DSM programs that have a direct benefit to customers. Other government agencies might talk about ways to implement DSM programs, but the Corporation Commission has successfully required the implementation of them for over a decade.